

P 311223Z JAN 03
FM AMEMBASSY ROME
TO DEPT OF TREASURY WASHDC PRIORITY
SECSTATE WASHDC 7921
INFO USDOC WASHDC
DEPT OF LABOR WASHDC
EU MEMBER STATES COLLECTIVE
AMEMBASSY OTTAWA

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SECSTATE WASHDC 7922
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DEPT OF LABOR WASHDC

EU MEMBER STATES COLLECTIVE
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USEU BRUSSELS 3086
AMEMBASSY TOKYO
AMCONSUL MILAN
AMCONSUL FLORENCE
AMCONSUL NAPLES
AMCONSUL FRANKFURT

UNCLAS SECTION 08 OF 08 ROME 000379

SIPDIS

DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA
LABOR FOR ILAB
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TREAS FOR OASIA HARLOW, CARNES
STATE PASS CEA
STATE PASS FRB FOR GUST
FRANKFURT FOR WALLAR
USDOC 6800/ITA/TD/OTEA/TISD/HSCHULTZ AND
4212/ITA/MAC/OEURA/CPD/DDEFALCO

E.O. 12958: N/A

TAGS: ECON EFIN ELAB IT ECON EFIN ELAB IT ECON EFIN ELAB IT ECON EFIN ELAB IT ECON EFIN ELAB IT ECON EFIN ELAB IT ECON EFIN ELAB IT ECON EFIN
SUBJECT: ECONOMIC FORECAST FOR ITALY 2003-2004:
JANUARY 2003 PREDICTIONS

II.C. CURRENT ACCOUNT (USD BILLION)

	2000	2001	2002	2003
			(F)	(F)
TRADE BALANCE	15.9	13.4	12.6	12.1
2.1				
EXPORTS FOB	242.6	261.2	282.0	298.1
IMPORTS FOB	226.7	247.8	269.4	286.0
BALANCE AS PCT.				
OF GDP	1.5%	1.1%	1.0%	0.9%
INVISIBLES	-16.1	-16.9	-15.7	-14.8
SERVICES	0.3	-2.3	-0.9	-1.3
INCOMES	-10.4	-11.4	-11.7	-10.4
NET TRANSFERS	-6.0	-3.2	-3.1	-3.0
CURRENT ACCOUNT	-0.2	-3.5	-3.1	-2.7
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PCT OF GDP 0.0% -0.3% -0.2% -0.2%

III. PUBLIC FINANCES

MEASURES OF FISCAL BALANCES, 2000-2003

III. A. 1. PUBLIC ADMINISTRATION - NATIONAL
ACCOUNTS BASIS (BILLIONS OF EURO)

	REVENUES	EXPENSES	BALANCE	PRIMARY
			BALANCE	
2000	520,828	541,102	-20,169	55,096
PCT OF GDP	44.7	46.5	-1.7	4.7
2001	556,797	583,595	-26,798	45,686
PCT OF GDP	45.8	48.0	-2.2	3.8
.8				
2002 (F)	554,824	585,309	-30,484	45,084
PCT OF GDP	44.4	46.8	-2.4	3.6
2003 (F)	576,029	608,297	-32,268	39,522
PCT OF GDP	44.6	47.1	-2.5	3.1
2004 (F)	591,600	625,098	-33,498	34,703
PCT OF GDP	44.2	46.7	-2.5	2.6

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IV. HISTORICAL SERIES-REAL AND NOMINAL GDP 2000-2003
(MILLIONS OF EURO)

PERIOD	GDP (1995 PRICES)	GDP (CURRENT PRICES)
2000	1,012,804	1,164,766
Y/Y CHG	2.9%	5.1%
2001	1,030,785	1,216,581
Y/Y CHG	1.8%	4.4%
2002	1,035,300	1,249,362
Y/Y CHG	0.4%	2.7%
2003	1,047,055	1,290,716
Y/Y CHG	1.1%	3.3%
2004	1,068,149	1,339,923
Y/Y CHG	2.0%	3.8%

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ACTION EB-00

INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	DODE-00	WHA-00
	SRPP-00	EAP-00	EXME-00	EUR-00	E-00	UTED-00	VC-00
	FRB-00	TEDE-00	INR-00	ITC-01	LAB-01	VCE-00	AC-01
	NSAE-00	NSCE-00	OMB-01	OPIC-01	OPM-01	ACE-00	SP-00
	SSO-00	SS-00	STR-00	SVC-00	TEST-00	USIE-00	DRL-01
	G-00	SAS-00	/008W				

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INFO USDOC WASHDC
DEPT OF LABOR WASHDC

INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	DODE-00	WHA-00
	SRPP-00	EAP-00	EXME-00	EUR-00	E-00	UTED-00	VC-00
	FRB-00	TEDE-00	INR-00	ITC-01	LAB-01	VCE-00	AC-01
	NSAE-00	NSCE-00	OMB-01	OPTC-01	OPM-01	ACE-00	SP-00
	SSO-00	SS-00	SFR-00	TESC-00	USTE-00	DRI-01	G-00

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INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	DODE-00	WHA-00
	SRPP-00	EAP-00	EXME-00	EUR-00	E-00	UTED-00	VC-00
	FRB-00	TEDE-00	INR-00	ITC-01	LAB-01	VCE-00	AC-01
	NSAE-00	NSCE-00	OMB-01	OPIC-01	OPM-01	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	USIE-00	DRL-01	G-00
	SAS-00	/008W					

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TREAS FOR OASIA HARLOW, CARNES
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REF: A. 02 TREAS 41955Z
B. 02 ROME 4673

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PERCENT, SLIGHTLY ABOUT ITS 2002 TARGET OF 2.2
PERCENT. HOWEVER, OVER THE FORECAST PERIOD, ITALY
WILL HAVE DIFFICULTY IN KEEPING ITS DEFICIT WITHIN EU
TARGETS. END SUMMARY.

16. PRIVATE CONSUMPTION IS EXPECTED TO SHOW A DECLINE FROM 1.1 PERCENT IN 2001 TO 0.2 PERCENT IN 2002. WEAK CONSUMER CONSUMPTION IS THE RESULT OF LOWER PORTFOLIO

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INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	DODE-00	WHA-00
	SRPP-00	EAP-00	EXME-00	EUR-00	E-00	UTED-00	VC-00
	FRB-00	TEDE-00	INR-00	ITC-01	LAB-01	VCE-00	AC-01
	NSAE-00	NSCE-00	OMB-01	OPIC-01	OPM-01	ACE-00	SP-00
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	SAS-00	/008W					

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SUBJECT: ECONOMIC FORECAST FOR ITALY 2003-2004:
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47. PRIVATE INVESTMENT DECLINED IN 2002. PRIVATE INVESTMENT FOR THE FIRST NINE MONTHS OF 2002 WAS DOWN 1.1 PERCENT OVER THE CORRESPONDING PERIOD IN 2001. INVESTMENT IN MACHINERY AND EQUIPMENT FELL FURTHER, DOWN 2.7 PERCENT - A RESULT OF A 4.1 PERCENT DECREASE IN INVESTMENT IN MACHINERY, COMBINED WITH A 2.4

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18. INVESTMENT IN CONSTRUCTION ALSO WAS DISAPPOINTING, UP JUST 0.5 PERCENT IN THE FIRST NINE MONTHS OF 2002. WE ASSUME A 0.6 PERCENT INCREASE FOR 2002, WELL BELOW THE TWO PERCENT GROWTH ESTIMATED BY THE ASSOCIATION OF THE BUILDING COMPANIES, ANCE, WHICH HAD ANTICIPATED SIGNIFICANT INVESTMENT IN PUBLIC WORKS BY THE END OF 2002.

19. GDP GROWTH IS EXPECTED TO INCREASE GRADUALLY TO 1.1 PERCENT AND TWO PERCENT RESPECTIVELY IN 2003 AND 2004, SUPPORTED BY DOMESTIC DEMAND AND A RECOVERY OF EXPORTS, ALTHOUGH THE STRONGER EURO VERSUS THE DOLLAR WILL HURT EXPORTS. LOWER INFLATIONARY PRESSURES AND A MODEST RECOVERY OF THE STOCK MARKET ARE LIKELY TO GRADUALLY BOOST HOUSEHOLD INCOME AND PRIVATE CONSUMPTION. AS A RESULT OF THESE TRENDS, PRIVATE CONSUMPTION IS EXPECTED TO INCREASE FROM 0.2 PERCENT IN 2002 TO 1.2 PERCENT AND 1.9 PERCENT IN 2003 AND 2004. RESPECTIVELY.

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110. INVESTMENT SHOULD INCREASE GRADUALLY TO TWO PERCENT IN 2003 AND TO 3.4 PERCENT IN 2004, IF BUSINESS AND ECONOMIC CONDITIONS IMPROVE AS EXPECTED. THE EXPIRATION OF A TAX DEDUCTION FOR HOME REMODELING AT SEPTEMBER 2003 IS, HOWEVER, LIKELY TO DEPRESS CONSTRUCTION INVESTMENT. THIS SHOULD BE OFFSET BY HIGHER PUBLIC INVESTMENT IN INFRASTRUCTURE.

12. ITALIAN CONSUMERS AND SOME INDEPENDENT RESEARCH

INSTITUTES BELIEVE THAT OFFICIAL FIGURES UNDERSTATE
2002 INFLATION. PRICES OF SUCH BASIC ITEMS AS
NEWSPAPERS, COFFEE, BUS, SUBWAY AND TICKETS ROSE

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ACTION EB-00

INFO LOG-00 AID-00 CEA-01 CIAE-00 CTME-00 DODE-00 WHA-00
SRPP-00 EAP-00 EXME-00 EUR-00 E-00 UTED-00 VC-00
FRB-00 TEDE-00 INR-00 ITC-01 LAB-01 VCE-00 AC-01
NSAE-00 NSCE-00 OMB-01 OPIC-01 OPM-01 ACE-00 SP-00
SSO-00 SS-00 STR-00 TEST-00 USIE-00 DRL-01 G-00
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AMCONSUL NAPLES
AMCONSUL FRANKFURT

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SUBJECT: ECONOMIC FORECAST FOR ITALY 2003-2004:
JANUARY 2003 PREDICTIONS

SUBSTANTIALLY IN 2002. ACCORDING TO SOME CONSUMER
ASSOCIATIONS, RESTAURANT PRICES ROSE BY 20 PERCENT
OVER THE YEAR SINCE THE EURO WAS INTRODUCED, AND MEAT
PRICES JUMPED 10 TO 20 PERCENT. PARTLY IN RESPONSE TO
THIS CONCERN, THE MARKET BASKET USED FOR INFLATION
CALCULATIONS WAS REVISED AT THE BEGINNING OF 2003.

¶13. IN LINE WITH THE CONSENSUS FORECAST, WE ESTIMATE A
MODEST REDUCTION IN INFLATION OVER THE FORECAST PERIOD
TO 2.2 PERCENT IN 2003 AND TO 1.8 PERCENT IN 2004.
THE PRICE OF UTILITIES IS LIKELY TO INCREASE
SIGNIFICANTLY IN EARLY 2003, GIVEN THE UNCERTAIN
SITUATION IN THE MIDDLE EAST.

FOREIGN TRADE

¶14. ITALYS SHARE OF WORLD TRADE DECREASED FROM 3.9
PERCENT IN 2001 TO 3.7 PERCENT IN 2002. ITALYS
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EXPORTS HAVE BEEN SLOWED BY THE RECESSION IN GERMANY,
ITS TOP EXPORT MARKET. EXPORTS ARE EXPECTED TO RECOVER
ONLY WHEN GLOBAL ECONOMIC CONDITIONS IMPROVE, LIKELY
IN THE FIRST HALF OF 2003 OR LATER. HOWEVER, IF THE
STRENGTH OF THE EURO CONTINUES, EXPORT GROWTH WILL
LIKELY BE RESTRAINED.

¶15. THE LATEST FOREIGN TRADE DATA THROUGH OCTOBER 2002
SHOW THAT EXPORTS DROPPED 3.3 PERCENT, WHILE IMPORTS
FELL BY 5.7 PERCENT. EXPORTS TO EU COUNTRIES DECREASED
BY 5.8 PERCENT, WHILE IMPORTS FROM THE EU DECREASED BY
4.1 PERCENT. EXPORTS TO GERMANY FELL THE MOST, DOWN
11.7 PERCENT THROUGH OCTOBER 2002 OVER THE
CORRESPONDING PERIOD IN 2001.

¶16. EXPORTS TO NON-EU COUNTRIES DID NOT DECLINE AS
MUCH. ACCORDING TO THE LATEST ISTAT DATA, ITALIAN
EXPORTS TO ALL NON-EU AREAS (INCLUDING THE U.S.,
TURKEY AND THE FOUR SOUTH AMERICAN COUNTRIES OF
MERCOSUR) DECREASED 0.2 PERCENT IN THE FIRST TEN
MONTHS OF 2002 OVER THE CORRESPONDING PERIOD IN 2001.
THESE REFLECT A DECLINE IN EXPORTS TO MERCOSUR (36.3
PERCENT THROUGH OCTOBER), ASIA (6.9 PERCENT), NON-EU
EUROPEAN COUNTRIES (3.5 PERCENT), JAPAN (3.1 PERCENT)
AND THE UNITED STATES (1.8 PERCENT). AT THE SAME
TIME, EXPORTS INCREASED TO CHINA (28.2 PERCENT THROUGH
OCTOBER), RUSSIA (12.8 PERCENT), OPEC COUNTRIES (5.1
PERCENT) AND EU CANDIDATE COUNTRIES (3.5 PERCENT).

¶17. THE LATEST BALANCE OF PAYMENTS DATA SHOW A
CURRENT ACCOUNT DEFICIT OF E3.5 BILLION EURO THROUGH
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OCTOBER 2002, COMPARED TO A MODEST DEFICIT (E22
MILLION) IN THE CORRESPONDING PERIOD IN 2001. THIS IS
THE RESULT OF A FIVE BILLION EURO DECLINE IN
INVESTMENT, INCOMES AND TRANSFER BALANCES IN THE
CURRENT ACCOUNT, COMBINED WITH AN E1.5 BILLION
IMPROVEMENT IN THE TRADE ACCOUNT.

¶18. OVERALL, ITALYS CURRENT ACCOUNT DEFICIT WILL
APPROACH 0.3 PERCENT OF GDP. IF EXPORTS PICK UP AS A
RESULT OF A RECOVERY IN THE WORLD ECONOMY, WE EXPECT
AN IMPROVEMENT IN 2003 AND 2004.

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SUBJECT: ECONOMIC FORECAST FOR ITALY 2003-2004:
JANUARY 2003 PREDICTIONS

1. SUMMARY: ITALY IS LIKELY TO GROW ONLY MODERATELY OVER THE FORECAST PERIOD. IN 2002, THE GDP GREW BY A MEAGER 0.4 PERCENT (BELOW THE EU AVERAGE), BUT SHOULD INCREASE BY 1.1 PERCENT IN 2003 AND BY TWO PERCENT IN 2004, SUPPORTED BY A MODEST RECOVERY IN DOMESTIC DEMAND.

12. THE GLOBAL ECONOMIC DOWNTURN CONTINUES TO DAMPEN ITALIAN EXPORTS, WHICH ALSO ARE HURT BY THE EUROS STRENGTH VERSUS THE DOLLAR. IN 2002, THE CONVERSION TO THE EURO AND INCREASED UTILITIES PRICES PUSHED UP RETAIL PRICE LEVELS BY 2.5 PERCENT. HOWEVER, INFLATION IS EXPECTED TO DECLINE TO 2.2 PERCENT IN 2003 AND TO 1.8 PERCENT IN 2004. THROUGH 2002 SALES OF REAL ESTATE AND OTHER ONE-TIME REVENUE MEASURES, THE GOI WAS ABLE TO BRING THE DEFICIT/GDP RATIO TO 2.4

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PERCENT, SLIGHTLY ABOUT ITS 2002 TARGET OF 2.2
PERCENT. HOWEVER, OVER THE FORECAST PERIOD, ITALY
WILL HAVE DIFFICULTY IN KEEPING ITS DEFICIT WITHIN EU
TARGETS. END SUMMARY.

GDP GROWTH: 2002

43. AFTER SLOW GROWTH IN THE FIRST HALF OF 2002, ITALY'S ECONOMY GREW BY 0.3 PERCENT FROM THE SECOND TO THE THIRD QUARTER. THE THIRD QUARTER OF 2002 WAS 0.5 PERCENT HIGHER THAN THE THIRD QUARTER OF 2001. DATA FROM THE CENTRAL GOVERNMENT'S RESEARCH DIVISION, ISTAT, SHOW THAT SLIGHTLY HIGHER EXPORTS AND PRIVATE/PUBLIC CONSUMPTION, UP 0.2 PERCENT AND 1.6 PERCENT RESPECTIVELY, SUPPORTED GDP GROWTH FROM THE SECOND TO THIRD QUARTER. HOWEVER, FOR THE FIRST NINE MONTHS OF 2002, INVESTMENT (MOSTLY IN MACHINERY AND EQUIPMENT) FELL OVERALL BY 1.4 PERCENT; EXPORTS ALSO DECLINED 1.1 PERCENT. CONCERNS ABOUT GLOBAL ECONOMIC CONDITIONS AND INCREASED INFLATION (PARTIALLY BOOSTED BY THE EUROS INTRODUCTION) HAVE SLOWED CONSUMER DEMAND. ITALY'S EXPORTS HAVE ALSO BEEN DEPRESSED BY THE ECONOMIC DIFFICULTIES OF ITS MAJOR EXPORT MARKETS, GERMANY AND THE UNITED STATES.

14. INDUSTRIAL PRODUCTION FIGURES WERE DISAPPOINTING. IN THE FIRST TEN MONTHS OF 2002, INDUSTRIAL PRODUCTION FELL BY 2.6 PERCENT FROM THE CORRESPONDING PERIOD IN 2001. CONFINDUSTRIA, ITALYS INDUSTRIALISTS

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ASSOCIATION, ESTIMATES A 0.7 PERCENT DECLINE IN
INDUSTRIAL PRODUCTION IN THE FOURTH QUARTER 2002.
THIS IS IN LINE WITH THE CENTRAL BANK FORECAST. BASED
ON THESE TRENDS, WE EXPECT FIGURES TO SHOW A 1.9
.9
PERCENT DECLINE IN INDUSTRIAL PRODUCTION IN 2002,
FOLLOWED BY A MODERATE RECOVERY DURING THE FORECAST

15. ISAES LATST BUSINESS SURVEY SHOWED A FURTHER DROP IN BUSINESS CONFIDENCE IN DECEMBER 2002. ISAES CONSUMER CONFIDENCE INDEX FELL ANOTHER THREE POINTS IN DECEMBER 2002, REACHING THE LOWEST LEVEL REGISTERED SINCE 1998. ONE BRIGHT SPOT: CAR SALES WERE UP FOR THE MONTH. AS A RESULT OF THE GOVERNMENTS TAX INCENTIVES FOR NEW CAR PURCHASES, CAR SALES INCREASED BY A HEALTHY 51 PERCENT IN DECEMBER 2002. OVERALL, HOWEVER, CAR SALES WERE STILL DOWN 5.9 PERCENT OVER 2001 LEVELS.

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	FRB-00	TEDE-00	INR-00	ITC-01	LAB-01	VCE-00	AC-01
	NSAE-00	NSCE-00	OMB-01	OPIC-01	OPM-01	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	USIE-00	DRL-01	G-00
	SAS-00	/008W					

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INCOME PARTICULARLY AFFECTED BY THE CRISES IN LATIN AMERICA AND HIGHER INFLATION. FINANCE MINISTER TREMONTI ESTIMATES THAT ITALIANS LOST THE EQUIVALENT OF 1.1 PERCENT IN HOUSEHOLD INCOME BECAUSE OF FAILED ARGENTINE INVESTMENTS. ACCORDING TO THE CENTRAL BANK, ITALIAN HOUSEHOLDS LOST ONE-THIRD OF THE VALUE OF THEIR STOCK PORTFOLIO FROM THE SECOND QUARTER 2001 TO THE CORRESPONDING PERIOD IN 2002, EQUAL TO E 216 BILLION. IN THE FIRST HALF OF 2002, HOUSEHOLDS SOLD OFF STOCKS VALUED AT BY E 6 BILLION, WHILE INCREASING THEIR INVESTMENT IN TREASURY BILLS AND BONDS BY E 70.3 BILLION.

17. PRIVATE INVESTMENT DECLINED IN 2002. PRIVATE INVESTMENT FOR THE FIRST NINE MONTHS OF 2002 WAS DOWN 1.1 PERCENT OVER THE CORRESPONDING PERIOD IN 2001. INVESTMENT IN MACHINERY AND EQUIPMENT FELL FURTHER, DOWN 2.7 PERCENT - A RESULT OF A 4.1 PERCENT DECREASE IN INVESTMENT IN MACHINERY, COMBINED WITH A 2.4

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PERCENT INCREASE IN INVESTMENT IN TRANSPORTATION. WE
EXPECT THAT FIGURES WILL SHOW ONLY A MODEST RECOVERY
IN THE LAST PART OF 2002. THESE WERE LIKELY THE
RESULT OF LAST MINUTE INVESTMENTS TO TAKE ADVANTAGE
OF TAX INCENTIVES, GRANTED UNDER THE TREMONTI LAW FOR
REINVESTED PROFITS, AND ENVIRONMENT INCENTIVES FOR
INVESTMENT IN CLEANER TRANSPORTATION EQUIPMENT.

18. INVESTMENT IN CONSTRUCTION ALSO WAS DISAPPOINTING, UP JUST 0.5 PERCENT IN THE FIRST NINE MONTHS OF 2002. WE ASSUME A 0.6 PERCENT INCREASE FOR 2002, WELL BELOW THE TWO PERCENT GROWTH ESTIMATED BY THE ASSOCIATION OF THE BUILDING COMPANIES, ANCE, WHICH HAD ANTICIPATED SIGNIFICANT INVESTMENT IN PUBLIC WORKS BY THE END OF 2002.

GDP GROWTH: 2003-2004

49. GDP GROWTH IS EXPECTED TO INCREASE GRADUALLY TO 1.1 PERCENT AND TWO PERCENT RESPECTIVELY IN 2003 AND 2004, SUPPORTED BY DOMESTIC DEMAND AND A RECOVERY OF EXPORTS, ALTHOUGH THE STRONGER EURO VERSUS THE DOLLAR WILL HURT EXPORTS. LOWER INFLATIONARY PRESSURES AND A MODEST RECOVERY OF THE STOCK MARKET ARE LIKELY TO GRADUALLY BOOST HOUSEHOLD INCOME AND PRIVATE CONSUMPTION. AS A RESULT OF THESE TRENDS, PRIVATE CONSUMPTION IS EXPECTED TO INCREASE FROM 0.2 PERCENT IN 2002 TO 1.2 PERCENT AND 1.9 PERCENT IN 2003 AND 2004, RESPECTIVELY.

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110. INVESTMENT SHOULD INCREASE GRADUALLY TO TWO

PERCENT IN 2003 AND TO 3.4 PERCENT IN 2004, IF
BUSINESS AND ECONOMIC CONDITIONS IMPROVE AS EXPECTED.
THE EXPIRATION OF A TAX DEDUCTION FOR HOME REMODELING
AT SEPTEMBER 2003 IS, HOWEVER, LIKELY TO DEPRESS
CONSTRUCTION INVESTMENT. THIS SHOULD BE OFFSET BY
HIGHER PUBLIC INVESTMENT IN INFRASTRUCTURE.

INFLATION TRENDS

¶11. RETAIL INFLATION WAS 2.5 PERCENT IN 2002, A RESULT
OF THE EURO CHANGEOVER, WHICH RESULTED IN THE ROUNDING
UP OF PRICES, AND HIGHER PRICED UTILITIES, ESPECIALLY
ENERGY.

¶12. ITALIAN CONSUMERS AND SOME INDEPENDENT RESEARCH
INSTITUTES BELIEVE THAT OFFICIAL FIGURES UNDERSTATE
2002 INFLATION. PRICES OF SUCH BASIC ITEMS AS
NEWSPAPERS, COFFEE, BUS, SUBWAY AND TICKETS ROSE

UNCLASSIFIED

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2003ROME00379 - Classification: UNCLASSIFIED